

UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF MISSISSIPPI
DELTA DIVISION

UNITED STATES OF AMERICA,

Plaintiff,

v.

LENARDO CARZETTE BROWN, Individually)
and d/b/a/ PPH ENTERPRISES and PP&H; and)
ADRIANN STEEN-BROWN, Individually)
and d/b/a/ PPH ENTERPRISES and PP&H,)

Defendants.

CIVIL ACTION NO. _____

COMPLAINT FOR PERMANENT INJUNCTION

Plaintiff United States of America in its complaint against defendants Lenardo Carzette Brown, individually and d/b/a PPH Enterprises and PP&H, and Adriann Steen-Brown, individually and d/b/a PPH Enterprises and PP&H, states as follows:

NATURE OF COMPLAINT

1. This is a civil action brought by the United States of America to enjoin defendants Lenardo Carzette Brown, individually and d/b/a PPH Enterprises and PP&H, and Adriann Steen-Brown, individually and d/b/a PPH Enterprises and PP&H, from:
 - a. Preparing or assisting in the preparation of any federal income tax return for any other person or entity;
 - b. Providing any tax advice or services for compensation, including preparing returns, employing others to prepare returns, supervising others who prepare returns, providing consultative services or representation of customers;
 - c. Engaging in conduct subject to penalty under 26 U.S.C. § 6694, including preparing a return or claim for refund that includes an unrealistic or frivolous position or preparing a return or claim for refund that willfully or recklessly understates a tax liability;

- d. Engaging in conduct subject to penalty under 26 U.S.C. § 6695, including failing to exercise due diligence in determining clients' eligibility for the earned income credit; and
- e. Engaging in any conduct that interferes with the proper administration and enforcement of the internal revenue laws through the preparation of false tax returns.

AUTHORIZATION

2. This action has been authorized by the Chief Counsel of the Internal Revenue Service, a delegate of the Secretary of the Treasury, and commenced at the direction of the Attorney General of the United States, pursuant to the provisions of 26 U.S.C. §§ 7401, 7402 and 7407.

JURISDICTION AND VENUE

3. This Court has jurisdiction over this action pursuant to 28 U.S.C. §§ 1340 and 1345, and 26 U.S.C. § 7402.

4. Venue is proper in this Court pursuant to 28 U.S.C. §§ 1391 and 1396, and 26 U.S.C. § 7407.

DEFENDANTS

5. Lenardo Carzette Brown and Adriann Steen-Brown reside at 1208 Highway 8 West, Cleveland, Mississippi 38732. Lenardo Carzette Brown and Adriann Steen-Brown operate PPH Enterprises and/or PP&H from the following locations: (a) 509 Davis Avenue, Highway 61 South, Cleveland, Mississippi; (b) 733 Desoto Avenue, Clarksdale, Mississippi; (c) 807 Main Street, Rosedale, Mississippi; (d) Corner of Highways 8 and 49, Ruleville, Mississippi; and (e) an unknown address in Tunica, Mississippi.

DEFENDANTS' FRAUDULENT TAX PREPARATION SCHEME

6. Lenardo Carzette Brown and Adriann Steen-Brown, doing business as PPH Enterprises and also as PP&H, have been operating businesses that prepare federal income tax returns since at least 2000. Upon information and belief, PP&H is an abbreviation for Prompt, Professional and Honest.

7. Defendants personally prepared federal income tax returns when they first started their businesses, but presently they hire employees to prepare federal income tax returns on behalf of their businesses.

8. Lenardo Carzette Brown's mother, Annie Pearl Brown Williams, and step-father, Herbert Williams, trained the defendants' employees to prepare fraudulent income tax returns to maximize the amount of a customer's refund or, if the client owed taxes, to prevent the customer from paying any tax. For example, Annie Pearl Brown Williams and Herbert Williams instructed the defendants' employees to list false and/or unsubstantiated deductions on Schedule A, to fabricate businesses for the false reporting of self employment income on Schedule C, and to falsely claim dependents to maximize the customer's earned income credit.

9. The defendants' employees prepared fraudulent federal income tax returns based on the training and instructions provided by Annie Pearl Brown Williams and Herbert Williams. In particular, the defendants' employees listed false and/or unsubstantiated deductions on Schedule A, fabricated businesses for the false reporting of self employment income on Schedule C, and falsely claimed dependents for their customers.

10. The defendant Lenardo Carzette Brown obtained an Electronic Filing Identification Number ("EFIN") in his name that has been used to electronically file customers'

federal income tax returns since at least 2000. The defendant Adriann Steen-Brown obtained an EFIN in her own name that also was used to electronically file customers' federal income tax returns starting in 2003.

DEFENDANTS' KNOWLEDGE OF THE ILLEGALITY OF THEIR SCHEME

11. The defendants know or should know that their scheme is illegal.

12. The defendants have been operating federal income tax return preparation businesses under the business names PPH Enterprises and/or PP&H since at least 2000.

13. The defendants' customers were asked to fill out "intake sheets" to be used in the preparation of their returns. The defendants' employees, however, falsely manipulated or ignored the information provided on the intake sheets. For example, relatives of various ages listed on an intake sheet were classified as "disabled foster children" on the return, and the earned income credit was inappropriately claimed in relation to those individuals. A review of the intake sheets and their corresponding returns would have revealed the false claim. The defendants, however, failed to adequately supervise their employees and failed to review the returns prepared by their employees.

HARM TO THE UNITED STATES

14. The IRS has identified 1,307 federal income tax returns for the 2000 tax year that were electronically filed using the defendant Lenardo Carzette Brown's EFIN. The amount of refunds requested on those returns totaled \$3,078,391.00. The IRS has examined at least 21 of those returns, and all required audit adjustments that increased the tax owed because of the frivolous positions described above. Of those 21 examined returns for 2000, 75.83 percent of the refunds claimed on those returns were disallowed. Assuming that examination of all returns

for 2000 that were filed under Lenardo Carzette Brown's EFIN would yield similar increases in tax, the understated tax liability resulting from the 1,307 returns that were filed for the 2000 tax year would result in a tax loss of \$2,334,461.29 (75.83% x \$3,078,391.00).

15. The IRS has identified 2,240 federal income tax returns for the 2001 tax year that were electronically filed using the defendant Lenardo Carzette Brown's EFIN. The amount of refunds requested on those returns totaled \$7,028,779.00. The IRS has examined at least 15 of those returns, and all required audit adjustments that increased the tax owed because of the frivolous positions described above. Of those 15 examined returns for 2001, 84.63 percent of the refunds claimed on those returns were disallowed. Assuming that examination of all returns for 2001 that were filed under Lenardo Carzette Brown's EFIN would yield similar increases in tax, the understated tax liability resulting from the 2,240 returns that were filed for the 2001 tax year would result in a tax loss of \$5,948,761.19 (84.63% x \$7,028,779.00).

16. The IRS has identified 1,436 federal income tax returns for the 2002 tax year that were electronically filed using the defendant Lenardo Carzette Brown's EFIN. The amount of refunds requested on those returns totaled \$4,463,152.00. The IRS has examined at least 32 of those returns, and all but one required audit adjustments that increased the tax owed because of the frivolous positions described above. Of those 32 examined returns for 2002, 99.96 percent of the refunds claimed on those returns were disallowed. Assuming that examination of all returns for 2002 that were filed under Lenardo Carzette Brown's EFIN would yield similar increases in tax, the understated tax liability resulting from the 1,436 returns that were filed for the 2002 tax year would result in a tax loss of \$4,461,176.60 (99.96% x \$4,463,152.00).

17. The IRS has identified 471 federal income tax returns for the 2002 tax year that were electronically filed using the defendant Adriann Steen-Brown's EFIN. The amount of refunds requested on those returns totaled \$1,553,789.00. The IRS has examined at least 9 of those returns, and all required audit adjustments that increased the tax owed because of the frivolous positions described above. Of those 9 examined returns for 2002, 94.79 percent of the refunds claimed on those returns were disallowed. Assuming that examination of all returns for 2002 that were filed under Adriann Steen-Brown's EFIN would yield similar increases in tax, the understated tax liability resulting from the 471 returns that were filed for the 2002 tax year would result in a tax loss of \$1,472,820.01 (94.79% x \$1,553,789.00).

18. Combining all the electronically filed returns, the total understated tax liability caused by the defendants' improper return preparation services is estimated at \$14,217,219.09 (\$2,334,461.29 + \$5,948,761.19 + \$4,461,176.60 + \$1,472,820.01).

19. On information and belief, the defendants continued to operate their federal income tax return preparation businesses for the 2003 tax year.

COUNT I: INJUNCTION UNDER § 7407

20. The United States incorporates by reference the allegations contained in paragraphs 1 through 19 above.

21. Among other items, section 7407 of the Internal Revenue Code authorizes a district court to enjoin an income tax return preparer: (1) from engaging in conduct subject to penalty under I.R.C. § 6694, which penalizes a return preparer who knew or reasonably should have known that a return contained an unrealistic position; (2) from engaging in conduct subject to penalty under I.R.C. § 6695, which, among other items, penalizes a return preparer who fails

to exercise due diligence in determining eligibility for the earned income credit; or (3) from engaging in any other fraudulent or deceptive conduct that substantially interferes with the proper administration of the internal revenue laws.

22. I.R.C. § 7701(a)(36) defines "income tax return preparer" as "any person who prepares for compensation, or who employs one or more persons to prepare for compensation, any return of tax imposed by subtitle A or any claim for refund of tax imposed by subtitle A." Defendants are tax return preparers for the purposes of I.R.C. § 7701(a)(36).

23. The defendants have engaged in conduct subject to penalty under 26 U.S.C. § 6694 by hiring employees to prepare income tax returns based on unsubstantiated and fraudulent deductions and credits. The defendants know, or reasonably should know, of the positions taken on the returns that their employees prepare and that those positions do not have a realistic possibility of being sustained on the merits if questioned by the Internal Revenue Service.

24. The defendants have engaged in conduct subject to penalty under 26 U.S.C. § 6695 by failing to exercise due diligence in determining their clients' eligibility for the earned income tax credit.

25. The defendants have engaged in fraudulent and deceptive conduct that substantially interferes with the proper administration of the internal revenue laws.

26. The defendants' actions described above fall within 26 U.S.C. §§ 7407(b)(1) and thus are subject to injunction under § 7407.

27. Because of the defendants' continual and repeated conduct subject to injunction under 26 U.S.C. § 7407, they should be permanently enjoined from acting as income tax return preparers.

COUNT II: INJUNCTION UNDER 26 U.S.C. § 7402

28. The United States incorporates herein by reference the allegations in paragraphs 1 through 27 above.

29. Section 7402(a) of the Internal Revenue Code authorizes a district court to render such judgments and decrees as may be necessary or appropriate for the enforcement of the internal revenue laws.

30. The defendants, through the conduct described above, have engaged in conduct that interferes substantially with the administration and enforcement of the internal revenue laws. Unless enjoined by this Court, they are likely to continue to engage in such conduct. Their conduct causes significant injury to the United States. The United States is entitled to injunctive relief under 26 U.S.C. § 7402(a) to prevent such conduct.

APPROPRIATENESS OF INJUNCTIVE RELIEF

31. Unless enjoined, the defendants are likely to continue to engage in the conduct described above.

32. The defendants' conduct, as described above, causes irreparable harm to the United States. Specifically, their conduct is causing and will continue to cause substantial revenue losses to the United States Treasury, some of which may never be recovered, thus resulting in a permanent loss. Unless the defendants are enjoined, the IRS will have to devote substantial amounts of its limited resources to detecting and auditing future fraudulent returns

that are prepared on behalf of their businesses, thereby reducing the level of service that the IRS can give honest taxpayers.

33. If the defendants are not enjoined, they likely will continue to engage in conduct subject to penalty under 26 U.S.C. §§ 6694 and 6695.

34. If the defendants are not enjoined, they likely will continue to engage in conduct that interferes substantially with the administration and enforcement of the internal revenue laws.

WHEREFORE, plaintiff United States of America prays for the following relief:

A. That the Court find that defendants Lenardo Carzette Brown, individually and d/b/a PPH Enterprises and PP&H, and Adriann Steen-Brown, individually and d/b/a PPH Enterprises and PP&H, continually and repeatedly engaged in conduct subject to penalty under 26 U.S.C. §§ 6694 and 6695, or otherwise engaged in conduct that interferes with the enforcement of the internal revenue laws, and that injunctive relief against them is appropriate pursuant to 26 U.S.C. §§ 7402(a) and 7407 to prevent recurrence of that conduct;

B. That the Court, pursuant to 26 U.S.C. § 7407, enter a permanent injunction prohibiting defendants Lenardo Carzette Brown, individually and d/b/a PPH Enterprises and PP&H, and Adriann Steen-Brown, individually and d/b/a PPH Enterprises and PP&H, from directly or indirectly:

1. Preparing or assisting in the preparation of any federal income tax return for any other person or entity;
2. Providing any tax advice or services for compensation, including preparing returns, employing others to prepare returns, supervising others who prepare returns, providing consultative services or representation of customers;

3. Engaging in conduct subject to penalty under 26 U.S.C. § 6694, including preparing a return or claim for refund that includes an unrealistic or frivolous position or preparing a return or claim for refund that willfully or recklessly understates a tax liability;
4. Engaging in conduct subject to penalty under 26 U.S.C. § 6695, including failing to exercise due diligence in determining clients' eligibility for the earned income credit; and
5. Engaging in any conduct that interferes with the proper administration and enforcement of the internal revenue laws through the preparation of false tax returns.

C. That the Court, pursuant to 26 U.S.C. § 7402, enter an injunction:

1. Requiring each of the defendants, at their own expense, to send by certified mail, return receipt requested, a copy of the final injunction entered against them in this action to each person for whom he or she, or anyone at his or her direction or in his or her employ, prepared federal income tax returns or any other federal tax forms after January 1, 1999;
2. Requiring each of the defendants, within forty-five days of entry of the final injunction in this action, to file a sworn statement with the Court evidencing his or her compliance with the customer notification requirement; and
3. Requiring each of the defendants to keep records of his or her compliance with this provision, which may be produced to the Court, if requested, or to the United States pursuant to paragraph E, below;

D. That the Court, pursuant to 26 U.S.C. §§ 7402 and 7407, enter an injunction:

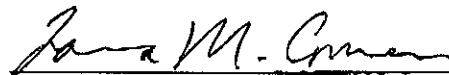
1. Requiring each of the defendants, and anyone who prepared tax returns at the direction of or in the employ of the defendants, to turn over to the United States copies of all returns or claims for refund that they prepared for customers after January 1, 1999;
2. Requiring each of the defendants, and anyone who prepared tax returns at the direction of or in the employ of the defendants, to turn over to the United States a list with the name, address, telephone number, e-mail address (if known), and social security number or other taxpayer identification number of all customers for whom they prepared returns or claims for refund after January 1, 1999; and

3. Requiring each of the defendants, within forty-five days of entry of the final injunction in this action, to file a sworn statement with the Court evidencing his or her compliance with the foregoing directive;

E. That the Court enter an order allowing the United States to monitor the defendants' compliance with this injunction, and to engage in post-judgment discovery in accordance with the Federal Rules of Civil Procedure; and

F. That the Court grant the United States such other and further relief as the Court deems appropriate.

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